

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Nebraska Public Service Commission, on its own motion, to make adjustments to the universal service fund mechanism established in NUSF-26	Application No. NUSF-50
QWEST CORPORATION'S INITIAL COMMENTS	

Qwest Corporation ("Qwest") submits its initial comments as directed by the dated December 6, 2005 as follows:

- 1. The Commission should not give carriers an option of filing, on a quarterly basis, NUSF-EARN forms.***

Increasing the frequency of filing NUSF-EARN forms will have no long-run benefit for any company or consumer, and will only increase administrative costs for the Commission and NETCs. The purpose of the NUSF-EARN form is to provide the appropriate earnings and investment detail for the PSC Staff to administer the rate of return adjustment implemented by the Commission's January 19, 1999 order in docket C-1628. Moving to quarterly reporting will only add complexity that will cut against any perceived benefit that might result.

As the Commission considers quarterly and annual filings of the NUSF-EARN form, it should keep in mind that the rate of return adjustment is a "true-up" of prior

support payments. As explained in the 1999 order in C-1628, during any earnings period, support will be withheld if it drives the rate of return above the 12% target. The process looks backwards at actual earnings and applies the true-up to the current year's support. Additionally, the PSC allowed companies to focus the rate of return calculation on jurisdictional or supported services and to elect either one-year or three-year averaging of annual results as part of the "test period". These findings focused the earnings test and ultimately the USF support to provide consistency and predictability in the level of support for LECs to provide service in high cost, rural areas.

The total support provided to any company will not change, regardless of the reporting interval. Moreover, annual reporting helps smooth out seasonal or temporary market fluctuations. On the other hand, quarterly reporting would add administrative headaches for the Commission and carriers. These administrative burdens would increase if quarterly reporting was an option, and some carriers reported annually while some reported quarterly. For example, if only some carriers reported quarterly and others reported annually, overearnings redistributions under NUSF-26 would have to be estimated for the quarterly reporting carriers, which could lead to errors, refunds, or credits. Qwest would prefer to avoid these problems.

Changing the frequency for preparing and filing the NUSF-EARN form from annual to quarterly would impose a significant and cost-prohibitive burden on Qwest. Qwest does not prepare its NUSF-EARN form using the broad-brush or high-level total operations approach that many other companies may have opted to employ. Rather, Qwest prepares its NUSF-EARN form filing on a more detailed, "supported services" basis. The cost accounting systems employed to produce the product-specific detail

used in developing Qwest's "supported services" are run annually after the Company's recording of its journalized results from operations is completed. In preparing the NUSF-EARN form, the "supported services" product-specific detail results are processed annually, and they are largely dependent on labor intensive analysis that are also prepared and evaluated annually. An increase in the frequency of reporting operational results would thus require Qwest to expend considerable labor and systems resources to take these additional accounting steps quarterly, and thus cause Qwest to incur significant and unwarranted analysis and processing costs. Moreover, shifting to a quarterly reporting process would also serve to significantly increase the auditing costs associated with each filing.

2. *The Commission should continue to use a calendar year for model adjustments.*

As noted above, Qwest prepares its accounting analysis of supported services on an annual, calendar year basis, and accordingly files its NUSF-EARN form on that schedule. Moving to a fiscal year reporting or adjustment basis would either force Qwest (among others) to change its accounting practices, or create a situation in which distributions and earnings caps are measured by different time periods.

Again, although the current system has an unfortunate lag between actual performance and investment on one hand and NUSF distributions on the other, the remedies proposed in this docket to remedy the lag will likely create more problems than they solve. Qwest accordingly urges the Commission against adopting either of the alternatives discussed in the initial order in this docket. Qwest does, however,

welcome the opportunity to work with the Commission, Staff, and other carriers to develop ways to increase the efficiency of the NUSF distribution system.

Dated Thursday, January 12, 2006.

Respectfully submitted,

QWEST CORPORATION

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